

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, May 21, 1999
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Karl Polen, Chairman, Arizona State Retirement System Board called the meeting to order at 9:02 A.M., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call.

Present: Mr. Karl Polen, Chairman
Mr. James Jenkins, Vice Chairman
Mr. David Borg
Mr. Jim Bruner
Dr. Merlin DuVal
Dr. Chuck Essigs
Mr. Alan Maguire
Mr. Norman Miller
Mr. Ray Rottas

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the April 16, 1999 Regular Meeting of the Arizona State Retirement System Board and the Minutes of the April 16, 1999 Executive Session.

Motion: Mr. Norman Miller moved to approve the minutes of the April 16, 1999 regular meeting of the ASRS Board and the minutes of the April 16, 1999 executive session.

Mr. James Jenkins seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

3. Board Approval of Consent Schedule.

Motion: Dr. Merlin DuVal moved that the ASRS Board approve the Summary Report of Retirements, Refunds, and Death Benefits; System Transfers; and Applications and Agreements between Employers and the Arizona State Retirement System.

Mr. David Borg seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

Note: The order of the agenda items were changed to accommodate the absence of the court reporter.

4. Presentation, Discussion and Appropriate Action with Respect to the Retention of the Norwest Tower, and the Management of the Norwest Tower and Broadway Proper Properties.

Mr. Norman Miller reported to the Board that the Real Estate Board Committee had concluded its study regarding the financial performance of the Norwest Tower and the administrative issues pertaining to the Norwest Tower, as well as the Broadway Proper Properties. The study resulted in the following motion:

Motion: Mr. Norman Miller moved to approve that the ASRS retain 100% ownership of the Norwest Tower as an investment asset and to issue a request for proposal for investment management services for the purpose of hiring an investment manager to manage the Norwest Tower and potentially Broadway Proper properties.

Dr. Chuck Essigs seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the Approval of the Bi-Annual Audit Plan for Fiscal Years 1999/2000 and 2000/2001 for the Arizona State Retirement System.

Mr. Jim Bruner reported to the Board that the Audit Board Committee had completed the Audit Plan for the Arizona State Retirement System. This plan is to represent the auditable activities proposed for assignment during the period July 1, 1999 through June 30, 2001. The auditable activities proposed for assignment are based on the 1999 Risk Assessment completed by the ASRS Management Team.

Motion: Mr. Jim Bruner moved to approve the ASRS Bi-Annual Audit Plan for Fiscal Years 1999/2000 and 2000/2001.

Mr. Ray Rottas seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding an Independent Hearing Officer.

Mr. Fred Stork, Assistant Attorney General presented to the Board additional information regarding the services of the Office of Administrative Hearings.

Discussion led to the recommendation that this matter be referred to an ad hoc committee for further discussion. The committee will address issues such as:

- the time frame involved to provide the most expeditious process to the member;
- the prior history and performance of the Office of Administrative Hearings to determine whether that is the appropriate methodology to use as opposed to having ASRS's own hearing officer;
- what mechanisms should be put into place for determining how we would refer the hearings to the Office of Administrative Hearings.

Motion: Mr. Ray Rottas moved to refer the issue of using the Office of Administrative Hearings to conduct Arizona State Retirement System Board hearings to a committee appointed by the Chairman to take accelerated action.

Mr. Jim Bruner seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

Mr. Karl Polen appointed Mr. Jim Bruner, Dr. Merlin DuVal, Mr. Alan Maguire, and Mr. Norman Miller to serve on the ad hoc committee.

7. Board Hearing and Action by the Board Regarding the Request for Hearing of Rose-Marie Denning.

The Board reviewed the request of Ms. Rose-Marie Denning regarding the redeposit of her withdrawn ASRS contributions and the reinstatement of her monthly LTD benefits.

Discussion with Ms. Rose-Marie Denning and Mr. Fred Stork, Assistant Attorney General representing the ASRS, regarding the nature of Ms. Denning's situation resulted in the following motion:

Motion: Dr. Chuck Essigs moved that the Board finds that Ms. Denning was not entitled to withdraw her contributions from the ASRS since she was still a State employee and that she, therefore, is relieved of the legal consequences of the withdrawal of her contributions. Upon return of her contributions to the ASRS with interest from the date of refund, her membership and service credits in the ASRS and her eligibility for LTD benefits shall be reinstated.

Mr. James Jenkins seconded the motion.

By a vote of 6 in favor, 3 opposed, 0 abstentions, 0 excused, the motion was approved. The opposing were Mr. David Borg, Mr. Jim Bruner, and Mr. Alan Maguire.

8. Election of 1999/2000 Board Officers.

Mr. Karl Polen explained that the officers of the Board serve terms running from July 1st through June 30th.

Motion: Dr. Merlin DuVal made the nomination of Dr. Chuck Essigs for Vice Chairman, and the nomination of Mr. James Jenkins for Chairman for the term July 1, 1999 through June 30, 2000.

Mr. Ray Rottas seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

Mr. Ray Rottas was excused from the meeting at 10:35 a.m.

Mr. Norman Miller was excused from the meeting at 10:37 a.m.

9. Presentation, Discussion and Appropriate Action Regarding the Retention and Possible Non-Retention of Active and Passive Mid Cap Equity Investment Managers and the Consequent Reallocation of Assets.

Mr. Alan Maguire reported to the Board that the Investment Review Board Committee has completed the process for analyzing the Request for Proposals (RFP) for Mid Cap Managers that included a search and analysis by the ASRS investment consultant Mercer, a proposal review and analysis by the ASRS investment staff, and a review, analysis and interviews by the RFP Evaluation Committee. This process resulted in the following recommendations:

Recommendation #1: Domestic Active Mid Cap Mandate

The RFP Evaluation Committee has concluded its analysis of the *Domestic Active Mid Cap Mandate* and is recommending that the following two external investment managers be retained:

<u>Manager</u>	<u>Fee For Estimated Account Size</u>
Conseco	24.0 basis points
Mellon Equity	20.0 basis points

Mellon Equity currently manages approximately \$ 1.2 billion in an active Large Cap mandate for the ASRS. Conseco does not currently manage funds for the ASRS.

Consistent with the asset allocation policy authorized by the Board, the Investment Review Board Committee is recommending that each manager initially be allocated approximately equal portfolio sizes of approximately \$ 205 million each. Consequently, each manager would be allocated approximately 1 % of the total ASRS Fund.

Recommendation #2: Domestic Passive Mid Cap Mandate

The RFP Evaluation Committee has concluded its analysis of *the Domestic Passive Mid Cap Mandate* and is recommending that the following external investment manager be retained:

<u>Manager</u>	<u>Fee For Estimated Account Size</u>
State Street	4.0 basis points – first \$50 million 3.0 basis points – next \$50 million 2.0 basis points – amounts thereafter with a minimum \$25 thousand fee for a separate account and a minimum \$10 thousand fee for a commingled account

State Street does not currently manage funds for the ASRS and would not currently receive an allocation of funds from the ASRS. Rather, future funding of State Street would be contingent on asset availability, Fund rebalancing, and asset allocation decisions.

Consistent with the asset allocation policy authorized by the Board, the Investment Review Board Committee is recommending that State Street be authorized to receive future funding in the passive mid cap equity strategy.

Motion: Mr. Alan Maguire moved to approve the hiring of Conseco Capital Management at the fee of 24.0 basis points, and Mellon Equity at the fee of 20.0 basis points as investment managers for the Domestic Active Mid Cap Mandate; and the hiring of State Street Global Advisors at the fee of 4.0 basis points for the first \$50 million, 3.0 basis points for the next \$50 million, and 2.0 basis points for amounts thereafter with a minimum \$25 thousand fee for a separate account and a minimum \$10 thousand fee for a commingled account, as investment manager for the Domestic Passive Mid Cap Mandate.

Mr. Jim Bruner seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

Mr. Norman Miller rejoined the meeting at 10:45 a.m.

10. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance for the Period Ending March 31, 1999.

Mr. Terry Dennison, Principal, Mercer Investment Consulting presented the ASRS Total Fund Performance for the period ending March 31, 1999.

Total Fund Performance for Periods Ending March 31, 1999

	Qtr	1 Year	3 Years	5 Years	10 Years
Total ASRS Fund	2.8	13.7	18.5	17.3	14.4
Benchmark	2.5	13.1	17.6	16.6	14.1
TUCS Public Fund Median	1.6	6.9	14.8	14.5	12.7

Mr. Norman Miller was excused from the meeting at 11:05 a.m.

Performance vs. Benchmarks for the 3 Years Ending March 31, 1999

	Port ROR	Bmk ROR	Assumed ROR	Port SD	Bmk SD	Assumed SD
Total ASRS Fund	18.5	17.6	9.3	11.8	10.5	10.2
Domestic Equity	26.5	28.1	10.2	17.2	16.2	16.2
Domestic Fixed	8.0	7.8	7.0	3.8	3.3	7.0
International Equity	9.3	8.8	10.6	19.4	19.2	19.7

Performance vs. Benchmarks for the 5 Years Ending March 31, 1999

	Port ROR	Bmk ROR	Assumed ROR	Port SD	Bmk SD	Assumed SD
Total ASRS Fund	17.3	16.6	9.3	9.7	8.7	10.2
Domestic Equity	24.8	26.2	10.2	13.9	13.2	16.2
Domestic Fixed	8.3	7.8	7.0	5.4	4.3	7.0
International Equity	8.9	9.1	10.6	15.0	14.9	19.7

11. Presentation, Discussion and Appropriate Action Regarding the Performance of Domestic Large Cap Equity Managers for the Period Ending March 31, 1999.

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc., reported on the Investment Manager's performance for the Arizona State Retirement System (E1), the Arizona State Retirement System (E2), BGI Barclays Global Investors, JP Morgan Investment Management, Inc., and Mellon Equity for the period ending March 31, 1999.

Mr. Paul Matson, Senior Investment Manager and Mr. Oliver Campbell, Portfolio Manager and Trader reported on the Arizona State Retirement System's (E1) performance for the period ending March 31, 1999.

	Qtr Ending 3/31/99
Sector Weightings	(0.1)
Security Weights Within Sectors	(0.5)
Other	0.0
Fees	0.0
Total Value Added	(0.7)

Mr. Paul Matson, Senior Investment Manager and Mr. Oliver Campbell, Portfolio Manager and Trader reported on the Arizona State Retirement System's (E2) performance for the period ending March 31, 1999.

	Qtr Ending 3/31/99
Sector Weightings	(0.1)
Security Weights Within Sectors	0.1
Other	0.0
Fees	0.0
Total Value Added	0.0

Mr. Larry Tint, Vice Chairman reported on BGI Barclays Global Investors' performance for the period ending March 31, 1999.

	Quarter	1 Year	3 Years	5 Years	Inception*
Sector Selection	0.00	0.00	0.00	0.00	0.00
Stock Selection	0.00	0.00	0.00	0.00	0.00
Other	0.03125	0.060	0.040	0.040	0.020
Fees (% annual)	(0.00125)	(0.005)	(0.005)	(0.005)	(0.005)
Total Value Added	0.03000	0.055	0.035	0.035	0.015

* Returns are net of fees. As of 3/31/99.

Mr. Henry Cavanna, Managing Director, Equity Investments reported on JP Morgan Investment Management, Inc.'s performance for the period ending March 31, 1999.

	Quarter*	1 Year	3 Years	5 Years	Inception
Sector Selection	(0.15)	(1.57)	(1.16)	(0.93)	(0.40)
Stock Selection	(1.52)	2.15	0.41	0.00	1.62
Other**	(0.62)	(2.61)	(0.76)	(0.67)	0.15
Fees	(0.04)	(0.14)	(0.14)	(0.14)	(0.14)
Total Value Added	(2.33)	(2.17)	(1.65)	(1.74)	1.23

* Not annualized

** Includes intra-month trading, interaction and cash impact.

Mr. John O'Toole, Senior Vice President and Senior Portfolio Manager and Mr. William Rydell, President and Senior Portfolio Manager reported on Mellon Equity's performance for the period ending March 31, 1999.

	Quarter	Inception*
Sector Selection	(44) bp	(82) bp
Stock Selection	52 bp	294 bp
Other	(55) bp	(193) bp
Fees	(3) bp	(9) bp
Total Value Added	(50) bp	10 bp

* As of 7/1/98

12. Director's Report

Mr. LeRoy Gilbertson reported on the ASRS staff's attempt to identify and secure facilities in Flagstaff for the July, 1999 Board meeting. Discussion resulted in the decision that the July 16, 1999 ASRS Board meeting will be held in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona.

13. Board Requests for Agenda Items.

Mr. Jim Bruner requested that Mr. Terry Dennison, Principal, Mercer Investment Consulting provide a brief report at the June 11, 1999 ASRS Board meeting regarding the impact of 24-hour trading. Specifically, any concerns that the ASRS should have as it relates to internal management, as well as how 24-hour trading will impact JP Morgan Investment Management and Mellon Equity and how their impact will effect the ASRS.

Mr. Jim Bruner announced that Cornell University is honoring Dr. Merlin DuVal and will be presenting Dr. DuVal with a prestigious award.

Dr. Chuck Essigs requested that staff present the new ASRS website to the Board and inform them of future intentions of the site. Mr. James Jenkins requested that this information also

be included in the Newsletter. Mr. LeRoy Gilbertson announced that the ASRS website address is www.asrs.state.az.us.

Mr. Jim Bruner was excused from the meeting at 12:04 p.m.

14. Call to the Public.

Mr. Bill Peltier of the Tucson public suggested that Mr. Fred Stork, Assistant Attorney General representing the ASRS put in writing, guidelines and limitations for the Board to assist them in matters such as the Denning case. Mr. Karl Polen thanked Mr. Peltier for his comments.

There was no request to speak from the Phoenix public.

15. The next ASRS Board meeting is scheduled for Friday, June 11, 1999 at 9:00 a.m. in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona.

16. Adjournment of the ASRS Board.

Mr. Karl Polen, Chairman adjourned the May 21, 1999 meeting of the ASRS Board at 12:14 p.m.

Respectfully submitted,

Jalene Trivino, Secretary

Date

LeRoy Gilbertson, Director

Date